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Mexico

Tobacco and Products

Annual

Approved by:
Franklin D. Lee
U.S. Embassy Mexico
Drafted by:
Sal Trejo

Report Highlights:
Mexico's planted area and production of tobacco leaf, mostly burley for export, are forecast to decline as a result of lower demand attributable to excess supplies in the international market. Production of tobacco for domestic consumption in 2000 is also expected to decrease from the previous two years due to reduced planted area.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
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SECTION I. SITUATION AND OUTLOOK

Economic Situation and Outlook

The outlook for the Mexican economy continues to brighten after the uncertainty caused by the economic crises in Russia, Asia, and Brazil during the latter part of 1998 and early 1999. The nearly tripling of world oil prices combined with the Government of Mexico's (GOM) conservative fiscal and monetary policies have led to considerable strength in the Mexican economy. Estimated at 3.5 percent, GDP growth for 1999 surpassed earlier expectations, and the Bank of Mexico made believers out of skeptical market analysts by finishing 1999 below its13 percent inflation target for the year, with an estimated 12.3 percent inflation rate.

That optimism is substantiated by the trade data. Mexico's exports increased 16 percent during the first eleven months of 1999 compared to the same period in 1998. Meanwhile, imports increased 12.9 percent and the trade deficit decreased by 36.7 percent during the same period. Higher oil prices and a more robust U.S. economy are the primary reasons for these improvements. The United States remains by far the most important market for Mexico's exports (88 percent in 1998) and the most important source of imports (74 percent).

Looking forward to 2000, the government projects that the current account deficit will be approximately US$15.4 billion, a figure that would constitute a manageable 3.1 percent of GDP, but that's an increase from the 2.8 percent estimated for 1999. The GOM official inflation target for 2000 is 10.0 percent. The yearly average exchange rate is forecast at 10.4 pesos/US$, which would be a modest depreciation from the average rate of 9.6 that prevailed in 1999. The GOM is targeting a fiscal deficit of only 1.0 percent of GDP, a decrease from the 1.25 percent deficit estimated for 1999..

Achieving these projections depends in a large part on strong oil prices. The higher than expected GDP growth rate in 1999 and the strength of the trade account are largely attributable to the rise in oil prices . Moreover, the GOM receives nearly one-third of its revenues from oil. The GOM used US$16.0 per barrel to prepare the 2000 budget, a very reasonable target price given that the agreement to limit supply by the main exporting countries is likely to be extended for a good part of 2000. The price of the Mexican crude closed at US$22.32 in December 1999. (NOTE: Mexican crude oil is a lower grade than North Brent crude.)

These reasons for optimism notwithstanding, it's important to note that the Mexican market tends to overreact to good or bad news and could be adversely affected by external or internal shocks. In particular, the Mexican economy is susceptible to U.S. economic conditions. A significant downturn in the U.S. economy, a large sustained correction in the U.S. equities market, or a pronounced increase in U.S. interest rates, could all trigger a downturn in Mexico. Internal politics also could present a threat to the economy. Mexico will be holding elections in July and the country has a history of economic turmoil in the year of or following elections. (Source: U.S. Embassy/Mexico Economic Section)

Tobacco Situation and Outlook: Planted area and production of tobacco leaf, mostly burley for export, are forecast to decrease in 2000 as a result of excess supplies in international markets. Production of tobacco destined for consumption in the domestic market in 2000 is also expected to decrease from the previous two years due to reduced planted area. Mexican cigarette companies will continue to buy domestic burley and flue cured production rather than imported product. For the 1999 harvest, the estimate of tobacco leaf planted area and production has been revised downward due mainly to less-than-expected burley production for export. Flue cured tobacco production for 1999 has been revised downward due to reduced planted area. Likewise, flue cured production for 2000 is forecast to be less than the previous year due to decreased planted area.

Burley exports for 2000 are forecast upward from the previous year due to forward contracts and commitments with international buyers. For 2000, burley utilization is forecast downward due to an expected decrease in the production of mid and high-priced cigarettes for the middle and upper income consumers who are becoming more health minded. Lower tobacco leaf utilization will likely result in unchanged import needs for 2000, particularly for flue cured tobacco. For the same reason, ending stocks for burley tobacco in 2000 are expected to decrease somewhat from the previous year. Ending burley stocks for 1999 have been revised upward from our previous estimate due to decreased exports.

Cigarette Situation and Outlook: Cigarette production and consumption in 2000 are forecast to remain unchanged from the previous year's estimate due to the increase in retail prices and health concerns. Cigarette imports are dampened because they are more expensive than domestic products. Mexican cigarette exports are forecast to remain unchanged in 2000, and reportedly exports of both low priced domestic brands and non-branded cigarettes go mostly to Eastern European, Asian, and African countries. Cigarette imports continued to be negligible in 1999. Also, as a result of more stringent customs controls, and attractive prices for domestic cigarettes, imports of contraband cigarettes, mostly from the U.S., especially into central and southern Mexico, reportedly have decreased. However, they continue to flow in large quantities into the border towns.

SECTION II. STATISTICAL TABLES

PS&D Tobacco (Burley)

(Hectares) (Metric Tons)

PS&D Table						
Country:	**Mexico**					
Commodity:	**Tobacco, Burley**					
	Revised 1998		**Preliminary 1999**		**Forecast 2000**	
	Old	New	Old	New	Old	New
Market Year Begin	**01/1998**		**01/1999**		**01/2000**	
Area Planted	19088	19088	14872	14598		12206
Beginning Stocks	25767	25767	33871	33871		37992
Farm Sales Weight Prod	35896	35896	26819	25674		14317
Dry Weight Production	33024	33024	23440	21977		13028
U.S. Leaf Imports	0	0	0	0		0
Other Foreign Imports	0	0	0	0		0
Total Imports	0	0	0	0		0
TOTAL SUPPLY	58791	58791	57311	55848		51020
Exports	12420	12420	10112	5056		9975
Dom. Leaf Consumption	12500	12500	12800	12800		12600
U.S. Leaf Dom. Consum.	0	0	0	0		0
Other Foreign Consum.	0	0	0	0		0
Total Dom. Consum.	12500	12500	12800	12800		12600
Total Disappearance	24920	24920	22912	17856		22575
Ending Stocks	33871	33871	34399	37992		28445
TOTAL DISTRIB.	58791	58791	57311	55848		51020

PS&D Tobacco (Flue Cured)

(Hectares) (Metric Tons)

PS&D Table						
Country:	**Mexico**					
Commodity:	**Tobacco, Flue Cured**					
	Revised 1998		**Preliminary 1999**		**Forecast 2000**	
	Old	New	Old	New	Old	New
Market Year Begin	**01/1998**		**01/1999**		**01/2000**	
Area Planted	5715	5715	7354	6903		5735
Beginning Stocks	7524	7524	3379	3379		1254
Farm Sales Weight Prod	11255	11255	14157	11503		11079
Dry Weight Production	10355	10355	12883	10375		10082
U.S. Leaf Imports	0	0	0	0		0
Other Foreign Imports	500	500	500	500		500
Total Imports	500	500	500	500		500
TOTAL SUPPLY	18379	18379	16762	14254		11836
Exports	0	0	0	0		0
Dom. Leaf Consum.	11000	11000	11000	10000		9000
U.S. Leaf Dom. Consum.	0	0	0	0		0
Other Foreign Consum.	4000	4000	4000	3000		1000
Total Dom. Consum.	15000	15000	15000	13000		10000
Total Disappearance	15000	15000	15000	13000		10000
Ending Stocks	3379	3379	1762	1254		1836
TOTAL DISTRIB.	18379	18379	16762	14254		11836

PS&D Tobacco, Unmfg., Total

(Hectares) (Metric Tons)

PS&D Table						
Country:	**Mexico**					
Commodity:	**Tobacco, Unmfg., Total**					
	Revised 1998		**Preliminary 1999**		**Forecast 2000**	
	Old	New	Old	New	Old	New
Market Year Begin	**01/1998**		**01/1999**		**01/2000**	
Area Planted	31808	31808	27709	26798		21574
Beginning Stocks	64147	64147	69767	69767		70249
Farm Sales Weight Prod	61457	61457	52333	47957		42404
Dry Weight Production	54082	54082	45216	44744		39646
U.S. Leaf Imports	0	0	0	0		0
Other Foreign Imports	4000	4000	3350	3350		3350
Total Imports	4000	4000	3350	3350		3350
TOTAL SUPPLY	122229	122229	118333	117861		113245
Exports	14462	14462	10112	10112		12206
Dom. Leaf Consum.	31500	31500	31000	31000		32000
U.S. Leaf Dom. Consum.	0	0	0	0		0
Other Foreign Consum.	6500	6500	6500	6500		6500
Total Dom. Consum.	38000	38000	37500	37500		38500
Total Disappearance	52462	52462	47612	47612		50706
Ending Stocks	69767	69767	70721	70249		62539
TOTAL DISTRIB.	122229	122229	118333	117861		113245

PS&D Cigarettes

(1,000,000 Pieces)

PS&D Table						
Country:	**Mexico**					
Commodity:	**Tobacco, Cigarettes**					
Market Year Begin.	**Revised 1998**		**Preliminary 1999**		**Forecast 2000**	
	Old	New	Old	New	Old	New
Filter Production	32200	32200	32250	32200		32200
Non-Filter Production	15000	15000	15000	15000		15000
Total Production	47200	47200	47250	47200		47200
Imports	0	0	0	0		0
TOTAL SUPPLY	47200	47200	47250	47200		47200
Exports	20	20	20	20		20
Domestic Consumption	47180	47180	47230	47180		47180
TOTAL DISTRIB.	47200	47200	47250	47200		47200

NOTE: Mexico's cigarette exports are registered in metric tons, not in pieces.

Tobacco Trade Matrix 1998 and 1999*

TOBACCO			UNITS: ***Metric Tons***		
EXPORTS TO:	1998	1999*	**IMPORTS FROM:**	1998	1999*
U.S.	3,645	2,367	U.S.	0	0
OTHER			OTHER		
Dominican Rep.	166	48	Albania	299	0
Honduras	76	125	Greece	223	505
Spain	15	69	Italy	429	0
Sri Lanka	30	21	Macedonia	245	0
France	0	7	Bulgaria	97	0
Nicaragua	1	1	Brazil	2,534	2,486
Germany	26	0	Argentina	588	0
			Guatemala	62	180
			Turkey	1,026	514
TOTAL OF OTHER	314		TOTAL OF OTHER	5,502	3,685
OTHERS NOT LISTED	0	9	OTHERS NOT LISTED	0	0
GRAND TOTAL	3,959	2,647	GRAND TOTAL	5,502	3,685

*January-November 1999

Cigarette Trade Matrix 1998 and 1999*

CIGARETTES			UNITS: ***Metric Tons***		
EXPORTS TO:	1998	1999*	**IMPORTS FROM:**	1998	1999*
U.S.	180	97	U.S.	46	73
OTHER			OTHER		
UNITED ARAB EMIR	492	0	ENGLAND	7	12
URUGUAY	49	60	FRANCE	3	8
CANADA	12	0	SWITZERLAND	3	6
UNITED KINGDOM	10	0	CUBA		2
TOTAL OF OTHER	563	60	TOTAL OF OTHER	13	28
OTHERS NOT LISTED	2	1	OTHERS NOT LISTED	2	2
GRAND TOTAL	745	158	GRAND TOTAL	61	102

*January-November 1999

Tobacco Leaf Grower Prices per Quality Levels by State
Tobacco Leaf Burley
Semi-Shade & Stalk Cut
(Pesos per Kilogram)

Grades	1998/99	1999/00	% Change
B1	17.567	19.675	12.0
B2	15.996	17.916	12.0
B3	12.855	15.516	20.7
B4	12.14	12.566	3.50
B5	9.992	11.445	14.5
C1	16.139	18.076	12.0
C2	14.996	16.796	12.0
C3	13.854	14.398	3.9
C4	12.278	11.995	(2.3)
C5	9.141	10.869	18.9
T1	14.711	16.476	11.9
T2	14.282	15.996	12.0
T3	12.997	14.557	12.0
T4	10.712	10.393	(3.0)
T5	7.847	9.38	19.5
X1	14.996	16.796	12.0
X2	14.282	15.996	12.0
X3	13.138	14.715	12.0
X4	11.276	11.776	4.4
X5	8.989	9.604	6.8
SC	5.599	6.271	12.0

Tobacco Leaf Grower Prices per Quality Levels
Tobacco Leaf Flue-cured, (Green Basis)
(Pesos per Kilogram)

Grades	1998/99	1999/00	% Change
BO1	22.957	25.730	12.0
B02	21.721	24.344	12.0
BL1	19.955	22.365	12.0
BL2	18.542	20.782	12.0
B3	15.893	17.813	12.0
B4	13.597	15.240	12.0
B5	10.772	12.073	12.0
CO1	22.427	25.136	12.0
CO2	21.191	23.750	12.0
CL1	19.425	21.771	12.0
CL2	18.189	20.386	12.0
C3	15.363	17.219	12.0
C4	13.068	14.646	12.0
C5	11.302	12.667	12.0
TO1	22.074	24.740	12.0
TO2	20.484	22.959	12.0
TL1	19.072	21.735	13.9
TL2	17.659	19.792	12.0
T3	14.127	15.834	12.0
T4	11.832	13.261	12.0
T5	9.712	10.886	12.0
X1	17.659	19.792	12.0
X2	16.776	18.802	12.0
X3	14.657	16.427	12.0
X4	12.361	13.854	12.0
X5	10.242	11.479	12.0
SC	6.859	7.687	12.0
Average Price:	17.659	19.792	12.0

SOURCE: CIGATAM, La Moderna as of February 29, 2000
Exchange rate on March 25, 2000 (US$1.00 = 9.35 pesos)
Exchange rate on March 23, 1999 (US$1.00 = 9.85 pesos)

Burley Planted Area under Forward Contracts for 98/99 and 99/00 Harvest (Hectares)						
For Domestic Consumption						
Company	Semi-Shade Burley		Stalk Cut Burley		Total Burley	
	98/99	99/00	98/99	99/00	98/99	99/00
CIGATAM	2,767.3	971.0	1,722.5	1,594.0	4,489.8	2,565.0
LA MODERNA	2,448.0	2,350.0	2,604.0	2,410.0	5,052.0	4,760.0
Subtotal	5,215.3	3,321.0	4,326.5	4,004.0	9,541.8	7,325.0
For Export						
DIMON	2,100.5	1,862.8	0	0	2,100.5	1,862.8
TPN	2,955.3	3,017.8	0	0	2,955.3	3,017.8
Subtotal	5,055.8		0	0	5,055.8	4,880.6
Grand Total	10,271.1	4,880.6	4,326.5	4,004.0	14,597.6	12,205.6

SOURCE: CIGATAM and La Moderna as of February 29, 2000

Flue-Cured Planted Area Under Forward Contract for 98/99-99/00 Harvest (Hectares)		
Company	98/99	99/00
CIGATAM	4,433.0	3,335.0
LA MODERNA	2,470.0	2,400.0
Total	6,903.0	5,735.0

SOURCE: CIGATAM and La Moderna, as of February 29, 2000

Total Area and Tobacco Production (Hectares and Metric Tons)						
Type of Tobacco	Area			Production		
	1998	1999	2000	1998	1999	2000
Flue-Cured	5,991.3	7,354.0	5,735.0	11,905.4	14,157.0	5,860.0
Burley	18,572.0	14,871.5	12,205.6	32,966.1	26,819.3	14,317.0
TOTAL	24,163.3	22,225.5	17,940.6	44,871.5	40,976.3	20,177.0

SOURCE: CIGATAM and La Moderna as of February 29, 2000

Mexican Cigarette Prices Domestic Market
Price per Pack
(Mexican Pesos)

CIGATAM BRANDS	Price	LA MODERNA BRANDS	Price
Benson & Hedges Ment. 100	13.00	Viceroy Gold C.D. 100	13.00
Benson & Hedges 100	13.00	Viceroy Gold 100 L. Mentol	13.00
Marlboro C.S.100	13.00	Viceroy Gold 100 (5 Caj.)	13.00
Marlboro Lights E.L.85	10.00	Viceroy Gold 100 L y M (5 Caj.)	13.00
Marlboro Lights C.S.85	10.00	Viceroy L. Prem C.S.	10.00
Marlboro E.L. 85	10.00	Viceroy L. Prem C.D.	10.00
Marlboro F.T. 80	10.00	Viceroy L. Prem C.S. Y C.D.	10.00
Marlboro 14 F.T.	7.00	Salem C.S. y C.D.	10.00
L&M Regular F.T.	7.50	Camel C.D. Y LIGHTS C.S.	11.00
L&M Regular C.S.	7.50	Raleigh F.T.	9.50
L&M Lights FT	7.50	Pall Mall FF C.S. Y C.D.	9.00
L&M Lights C.S. 85	7.50	Pall Mall LIGHTS C.S. Y C.D.	9.00
Baronet Mentol	7.50	Montana C.S	8.50
Baronet Regular C.S.	7.50	Montana C.D.	8.50
Baronet Regular F.T.	7.50	Montana Lights C.D. Y C.S.	8.50
Broadway Lights F.T.80	7.50	Fiesta C.S	7.50
Broadway Lights C.S. 80	7.50	Del Prado	7.50
Broadway Regular F.T. 80	7.50	Boots C.D. Y C.S.	7.50
Broadway Regular C.S. 80	7.50	Boots LIGHTS C.D. Y C.S.	7.50
Broadway Lights 14 F.T.	5.25	Alas Extra	4.00
Broadway Lights 14 C.S.	5.25	Pacifico Ovalados	4.00
Broadway Regular 14 F.T.	5.25	Argentinos	4.00
Broadway Regular 14 C.S.	5.25	Alas Azules	4.00
Dalton Lights F.T. 80	7.50	Gratos	4.00
Dalton F.T. 20	7.50	Embajadores C.B C.S. Y C.D	4.00
Rodeo	7.50	Bohemios	3.00
Delicados Obscuros F.T.	7.50	Alitas	3.00
Elegantes Mentolados	4.00		
Elegantes Regular	4.00	LA LIBERTAD BRANDS	
Delicados Ovalados	4.00	Impala Mentolados H.T. C.L.	6.00
Tigres Ment. F.T.	3.00	Impala H.T. C.L.	6.00
Tigres F.T.	3.00	Impala Mentolados	6.00
Tigres	3.00	Impala Clasicos	6.00
Reales	3.00	Impala	6.00
Faros Ovalados	3.00	Aztecas	6.00
		Principes	5.50
		Gol 70	5.50
		Luchadores	2.50

SOURCE: CIGATAM
* Prices in effect from August 9, 1999
Exchange rate on March 25, 1999 (US$1.00 = 9.35 pesos)

SECTION III. NARRATIVE ON SUPPLY AND DEMAND, POLICY & MARKETING

TOBACCO

Production

Mexican burley production for 2000 is forecast to be less than 1999's preliminary estimate due to limited exports and lower demand for higher priced cigarettes and health concerns in the domestic market. The 1999 burley production estimate has been revised downward due mainly to lower planted area. Production in 2000 for flue cured tobacco is forecast to decrease by 2.9 percent from the previous year's estimate due to reduced planted area and carryover stocks from the previous year. The 1999 flue cured production estimate has been revised downward by 24.2 percent from our previous estimate due to reduced planted area and the growing health concerns of the population.

Planted area covered by forward contracts for 1999 has been revised downward by 3.4 percent from the previous estimate for a total of 26,798 hectares, due mainly to lower financing provided by foreign buyers to produce burley for export. As a result of the negotiations between burley growers and buyers, both parties contracted for 12,206 hectares in Nayarit (86.6 percent of the total) and Chiapas (13.4 percent) for the 2000 harvest.
With excess supplies in world markets, buyers anticipate a continued decline in the planted area for burley for export in 2000 and flue cured tobacco for the domestic cigarette companies. Total tobacco output for the domestic market is expected to decline for 2000 due to decreased plantings. Gains in productivity levels, however, should offset some of the decrease.

Assuming favorable weather, imports will likely be insignificant in years ahead. Although growers' returns have declined, tobacco production continues to be more attractive than other alternative crops, such as dry beans and horticultural products.

Consumption

For 1999, cigarette companies reported improved consumption of low and mid priced cigarettes in substitution of high priced cigarettes because of retail price increases. As a result, manufacturers report an increase of light air cured and flue cured tobacco utilization in 1999 at the expense of burley and certain grades of flue cured tobacco. Burley consumption for 2000 is forecast to be less than the previous year because health concerns continue to dampen demand. Total utilization of dark tobaccos continues to be strong in response to high demand for Mexican cigars.

Trade

As a result of cigarette companies' high stock levels, tobacco leaf imports remain unchanged in 1999 and 2000. Main imports will likely include flue cured, oriental and, to a lesser extent, dark air cured. No imports of burley tobacco are expected for 2000.

The 2000 unmanufactured burley tobacco export forecast is 9,975 MT. Foreign buyers' forward contracts with burley growers reduced planted area from 5,056 hectares in 1999 to 4,881 hectares for the 2000 harvest.

Included are 1998 and 1999 trade matrices for unmanufactured tobacco. The source for trade data is the Secretariat of Commerce and Industrial Development (SECOFI). The official data are presented as light and dark tobaccos. Note that official import data for calendar years 1998 and 1999 are not used in the PS&D tables because they are not consistent with the information provided by cigarette companies. However, official figures are included in trade matrix tables per reporting requirements. Detailed tobacco and products trade data from other public and or private sources are not available.

Stocks

Cigarette companies expect to maintain adequate ending stock levels of burley in 2000 due to the expected improvement in exports. Ending burley stocks for 1999 have been revised upward from our previous estimate due to reduced exports. Due to reduced production and consumption of flue cured tobaccos, ending stocks have been revised downward in 1999. For 2000, ending stocks of flue cured tobacco are expected to be slightly higher compared to the previous year's estimate due to reduced consumption.

Policy

It is expected that the future Mexican market conditions will largely be dictated by price sensitivity. Under the NAFTA, imports of U.S. and Canadian tobacco and products do not require import licenses. The current 2000 import tariff is 15 percent and is scheduled to be phased out to zero starting in 2003. At the same time, tobacco leaf imports from non-NAFTA countries continue to be subject to an import tariff of 67 percent and require import licenses. However, cigarette firms have been able to obtain these permits when they prove that domestic production is insufficient to meet demand. Unmanufactured and manufactured tobacco exports are not subject to export taxes or export permits.

Marketing

No change from our previous report. See MX9028 dated 3/31/99.

CIGARETTES

Production

Although the cigarette companies report domestic production costs well above international levels, they indicate that they are committed to support domestic production rather than increase imports. Leading domestic cigarette companies have been able to pass production cost increases onto their consumers. The Government of Mexico (GOM) has approved retail price increases well above the domestic inflation rate in recent years. As a result, imports will likely remain insignificant in future years, assuming normal weather.

Domestic cigarette companies report that the 2000 output level is forecast to remain unchanged from the previous year's estimate due to health concerns of the population and cigarette price increases. The present market shares among cigarette companies are: La Moderna - 51.8 percent; CIGATAM - 48.0 percent; and La Libertad - 0.2 percent.

Consumption

The slight decrease in 1999 cigarette consumption is due to health concerns and higher prices of cigarettes. As a result of August 1999 retail cigarette price increases, smokers have shifted from higher priced cigarettes made of high quality flue cured, burley, and oriental tobaccos to mid and low-priced cigarettes made with lower quality flue cured, light air cured and dark air cured tobaccos. On August 9, 1999, the GOM, through SECOFI, approved retail cigarette price increases of about 10.7 percent on average.

Trade

Mexican cigarette exports are forecast to remain unchanged in 2000. Processors report exports of both low priced domestic brands and non-branded cigarettes mostly to Eastern European, Asian, and African countries. Cigarette imports continued to be negligible in 1999. Also, as a result of improved customs controls, and attractive prices for domestic cigarettes, imports of contraband cigarettes, mostly from the United States, into central and southern Mexico, has reportedly decreased. Contraband cigarettes from the United States, however, continue to enter Mexico’s border towns in large quantities.

Policy

Under NAFTA, manufactured tobacco products from the U.S. are subject to import tariffs of 15 percent in 2000. Tobacco product imports from non-NAFTA countries continue to be subject to 67 percent import tariffs, and require import licenses.

Marketing

No change from our previous report. See MX9028 dated 3/31/99.